

PEAK Energy Services Ltd.

TABLE OF CONTENTS

I	Letter to Shareholders
3	Management's Discussion and Analysis
21	Consolidated Financial Statements
26	Notes to Consolidated Financial Statements
IBC	Corporate Information

CORPORATE PROFILE

Peak Energy Services Ltd. ("Peak") is a leading Canadian oilfield service company providing drilling and production services to the western Canadian oil and gas industry. Founded in 1996, Peak has experienced significant growth by acquiring complementary service companies, integrating services and diversifying product lines. Peak's integrated package offering and broad geographic range benefit customers by increasing efficiencies and reducing costs.

Fellow Shareholders,

The past year has been an exciting one for Peak Energy Services Ltd. ("Peak" or the "Company"). During 2003, we realized a significant improvement in financial performance as a result of many factors including increased levels of industry activity, stronger pricing in the second half of the year, the benefit of several strategic acquisitions made during the year and the addition of several key operational and financial management individuals.

Peak's revenue increased by 49 percent from \$37.3 million in 2002 to \$55.6 million in 2003. This compares favorably with industry activity levels increasing by 37 percent over the same time period. Our increase in revenue resulted in earnings before interest, taxes, depreciation and amortization and other items ("EBITDA") of \$19.5 million, an increase of 171 percent over the prior year and cash flow from operations increased from \$4.8 million in 2002 to \$17.3 million in 2003, a 264 percent increase. Income before equipment impairment losses increased by 835 percent from \$0.7 million in 2002 to \$6.9 million in 2003 and net income increased 345 percent from \$0.7 million in 2002 to \$3.3 million in 2003. More detailed discussion of our financial results is included in the Management's Discussion and Analysis ("MD&A") section of our annual report.

RECENT GROWTH INITIATIVES

In the spring of 2003, we announced the acquisition of certain solids control assets from Cobalt Rentals Ltd., the acquisition of Whitefox Environmental Services Inc. ("Whitefox") which provides on-site wastewater treatment facilities for remote locations and the acquisition of the access matting assets from Mighty Mats Ltd. ("Mighty Mats"). The solids control assets were immediately integrated into our solids control business. Since acquiring Whitefox, we have increased the size of the fleet by approximately 50 percent and are seeing strong utilization of our equipment. Meanwhile, our acquisition of Mighty Mats has had the largest impact on our overall financial results. Since acquiring the access matting business in March 2003, we have grown the fleet size from 8,200 mats to over 20,000 mats by the end of 2003. This growth is largely in response to demand we have experienced with a large operator in the Ft. Nelson, British Columbia region, who has committed to a two year contract with Peak to utilize 15,000 mats in the area. As well, other operators are starting to appreciate the benefits that access matting can deliver to operators for providing access in the summer months into areas that would otherwise be inaccessible due to muskeg or wet conditions. An added benefit of the access matting business is that its counter-seasonality to our other drilling related operations provides improved consistency to our revenue and cash flow streams over the course of the year.

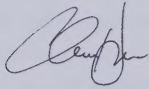
In addition to our acquisitions, we continued to add equipment in our solids control business to meet strong customer demand. During the fourth quarter, we added five high capacity centrifuges to complement the eight high capacity machines already in the fleet. As a result, we exited 2003 with over 130 centrifuges and related equipment making Peak a dominant force in the Canadian solids control arena.

As a result of increased activity in the northeastern British Columbia area and the exponential growth in the access matting business, Peak opened a full-service branch in Ft. Nelson during November 2003, consisting of a 10,000 square foot shop and five acre yard. This has allowed us to leverage off of the access matting business into our other lines of business with the major operators in the area. We expect this move will result in more efficient use of our equipment, with the end product being stronger utilization and enhanced rates of return on our assets.

OUTLOOK

The outlook for Peak has never been stronger as hydrocarbon pricing continues to stimulate strong activity within the oil and gas industry. Peak is well positioned to take advantage of higher utilization and pricing in its key business segments. Furthermore, Peak recently announced that its Board of Directors had unanimously approved a resolution to convert Peak to an income trust (further details provided in the MD&A). The Company expects strong activity levels to continue for the foreseeable future and Peak has never been better positioned to take advantage of these positive industry fundamentals. Under Peak's proposed new income trust structure, the Company will be in an enviable position to capitalize on significant growth opportunities with a lower cost of capital that will translate into enhanced returns for its unit holders.

On behalf of the Board of Directors,

A handwritten signature in black ink, appearing to read 'Chris Haslam', written in a cursive style.

Christopher E. Haslam, CMA, CBV
President and Chief Executive Officer
March 11, 2004

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION, RESULTS OF OPERATIONS AND CASH FLOWS

For the year ended December 31, 2003

The following management's discussion and analysis of financial condition, results of operations and cash flows for the year ended December 31, 2003 ("MD&A") should be read in conjunction with the audited annual consolidated financial statements for the years ended December 31, 2003 and 2002 and related notes therein. This MD&A was prepared effective February 26, 2004 except for Proposed Transactions which are effective March 11, 2004.

This MD&A focuses on key statistics from the consolidated financial statements and oilfield services industry which contains known and unknown risks and uncertainties. This MD&A should not be considered all-inclusive, as it does not incorporate all changes that could occur in the geopolitical, economic or environmental conditions. In addition, certain statements contained in this MD&A includes words such as "looks forward", "anticipate", "continue", "estimate", "may", "project", "could", "should", "expect", "believe", "will" and similar expressions and statements relating to matters that are not historical facts are forward-looking statements. By their nature, forward-looking statements are subject to numerous risks and uncertainties, some of which are beyond Peak Energy Services Ltd.'s control, including the impact of general economic conditions, industry conditions, competition from other industry participants, volatility of commodity prices, currency fluctuations, environmental risks, the lack of availability of qualified personnel or management, stock market volatility and ability to access sufficient capital from internal and external sources. Readers are cautioned that the assumptions used in the preparation of such information, although considered reasonable at the time of preparation, may prove to be imprecise and, as such, undue reliance should not be placed on forward-looking statements. Peak Energy Services Ltd.'s actual results, performance or achievement could differ materially from those expressed in, or implied by, these forward-looking statements and, accordingly, no assurance can be given that any of the events anticipated by the forward-looking statements will transpire or occur, or if any of them do so, what benefits that will derive there from.

DESCRIPTION OF BUSINESS

Peak Energy Services Ltd. ("Peak" or the "Company") is a leading Canadian energy services company operating in western Canada. Through its various operating segments, the Company provides drilling and production services to oil and gas drilling contractors and oil and gas producers. Founded in 1996, Peak has experienced significant growth by acquiring complementary services companies, integrating services and diversifying product lines. The Company's integrated package offering and broad geographic range benefit customers by increasing efficiencies and reducing costs.

The Company's Drilling Services division provides well-site accommodations, solids control, access matting and waste treatment. The well-site accommodations product line is engaged in the manufacturing and rental of high-quality well-site accommodation units used as living quarters for staff on remote locations in the oil and gas industry. The solids control product line is engaged in the rental of sumpless drilling systems comprised of a series of tanks and centrifuges. The access matting product line provides access matting for roads, pipeline rights-of-way and drilling locations. The waste treatment product line is engaged in providing wastewater management systems for the processing of grey and black water effluent on remote locations. The Company's Production Services division is engaged in providing tension anchor services for well servicing, the rental of frac/production tanks, pressure vessels, pumps and tank truck services for completion fluids.

OVERALL PERFORMANCE

Years ended December 31			
(in thousands of CAD, except per share amounts or otherwise noted)	2003	2002	% Change
Revenue	55,573	37,256	49
Net income	3,280	737	345
Per share – diluted	0.11	0.02	450
EBITDA ⁽¹⁾	19,517	7,189	171
Per share – diluted	0.64	0.23	178
Cash flow ⁽²⁾	17,340	4,759	264
Per share – diluted	0.57	0.15	280
Impairment loss on equipment held for sale (\$2,590, net of tax)	3,961	-	N/A
Impairment loss on equipment (\$1,019, net of tax)	1,558	-	N/A
Income before equipment impairment losses	6,889	737	835
Capital expenditures ⁽³⁾	28,216	6,591	328
Current assets	19,502	15,642	25
Tangible capital assets	115,620	104,816	10
Long-term debt	20,773	17,712	17
Total liabilities	52,228	44,654	17
Shareholders' equity	87,604	76,039	15
Working capital ⁽⁴⁾	13,269	11,748	13
Current ratio ⁽⁵⁾	3.13:1	4.02:1	-22
Long-term debt to equity ratio ⁽⁶⁾	0.24:1	0.23:1	-4
Number of common shares outstanding (thousands)	33,100	29,978	10
Industry activity ⁽⁷⁾			
Number of drilling rig operating days	126,430	91,958	37
Available drilling rig operating days	245,305	240,958	2
Drilling rig utilization (based on operating days)	52%	38%	37
Wells completed	19,957	14,563	37
Service rig utilization	70%	62%	13

(1) EBITDA is defined as earnings before interest, taxes, depreciation and amortization and other items. EBITDA is not a recognized measure under Canadian generally accepted accounting principles ("GAAP"). Management believes, in addition to net income, EBITDA is a useful supplemental measure as it provides an indication of the results generated by Peak's principle business activities prior to consideration of how these activities are financed or how the results are taxed in various jurisdictions. Investors should be cautioned, however, that EBITDA should not be construed as an alternative to net income determined in accordance with GAAP as an indicator of the Company's performance. Peak's method of calculating EBITDA may differ from other companies and, accordingly, EBITDA may not be comparable to measures used by other companies.

(2) Cash flow is defined as cash flow from operating activities before changes in non-cash working capital balances.

(3) Capital expenditures include both business acquisitions and purchase of capital assets.

(4) Working capital is defined as current assets less current liabilities excluding current portion of long-term debt.

(5) Current ratio is defined as current assets divided by current liabilities excluding current portion of long-term debt.

(6) Long-term debt to equity ratio is defined as long-term debt including current portion of long-term debt divided by shareholders' equity.

(7) Sources: Canadian Association of Oilwell Drilling Contractors (CAODC) and the Daily Oil Bulletin (DOB).

Peak's revenue for the year ended December 31, 2003 as compared to the prior year period, increased by \$18.3 million or 49 percent to \$55.6 million, EBITDA (defined as earnings before interest, taxes, depreciation and amortization and other items) and cash flow increased \$12.3 million or 171 percent and \$12.6 million or 264 percent to \$19.5 million and \$17.3 million, respectively. Income before equipment impairment losses was \$6.9 million (\$0.23 per share diluted) an increase of \$6.2 million or 835 percent and net income was \$3.3 million (\$0.11 per share diluted) an increase of \$2.5 million or 345 percent.

The Drilling Services division generated \$39.5 million in revenue for the year ended December 31, 2003 compared to \$21.7 million for the same period of 2002. The \$17.8 million or 82 percent increase in revenue for 2003 was the result of three strategic acquisitions made in March and April of 2003, improved utilization and enhanced pricing. Before including the effect of the acquisitions made during 2003, the Drilling Services division's revenue increased \$8.7 million or 40 percent for fiscal 2003 as compared to fiscal 2002, which correlates with the 37 percent increase in drilling rig operating days over the same period. The Production Services division contributed \$16.1 million in revenue for the year ended December 31, 2003 compared to \$15.6 million for the

same period of 2002. The \$0.5 million or 3 percent increase in revenue for 2003 does not compare favorably to the 13 percent increase in service rig utilization which was attributed to the weak performances of the tubulars, handling tools and anchor services product lines that are detailed in the following paragraphs.

EBITDA increased \$12.3 million or 171 percent from \$7.2 million in fiscal 2002 to \$19.5 million in fiscal 2003. The increase was attributed to the increase in revenue and its relationship to the operating leverage the Company has to increased industry activity levels due to the relatively fixed nature of its operating expenses and general and administrative expenses.

During the fourth quarter of 2003, the Company incurred an impairment loss on equipment held for sale in the amount of \$4.0 million (\$2.6 million, net of tax impact). The business climate for the Company's drill string and pump and pipe equipment product lines that are part of the Drilling Services division and tubulars and handling tools product lines that are part of the Production Services division has declined dramatically. Management has evaluated and determined that these assets are non-core to its existing operations and has committed to a plan to dispose of these product lines. These assets have been reclassified to equipment held for sale and an impairment loss has been recognized to reduce the assets carrying value to management's estimate of their fair value less selling costs.

Also during the last quarter of 2003, the Company incurred an impairment loss on equipment of \$1.6 million (\$1.0 million, net of tax impact). In recent fiscal periods, the business climate for the Company's anchor services product line that is part of the Production Services division has declined dramatically. Management has evaluated and determined that the carrying value of the assets within this product line exceed their fair value and has recognized an impairment loss to reduce the assets carrying value to management's estimate of their fair value.

Net income for the year ended December 31, 2003 was \$3.3 million (\$0.11 per share diluted) compared to \$0.7 million (\$0.02 per share diluted) in 2002. Income for the year ended December 31, 2003 before equipment impairment losses was \$6.9 million (\$0.23 per share diluted) compared to the prior year of \$0.7 million (\$0.02 per share diluted).

Total assets increased by \$19.1 million or 16 percent from \$120.7 million at December 31, 2002 to \$139.8 million at December 31, 2003. This was primarily related to the \$13.5 million in business acquisitions made during the year, the \$3.9 million increase in current assets and the \$1.3 million net increase in property and equipment (exclusive of the business acquisitions). The net property and equipment increase was the result of \$14.7 million in purchases, offset by depreciation of \$5.7 million, \$2.2 million in disposals and equipment impairment losses of \$5.5 million.

Total liabilities increased by \$7.5 million or 17 percent from \$44.7 million at December 31, 2002 to \$52.2 million at December 31, 2003. The change was the result of the \$3.1 million increase in long-term debt (including current portion of long-term debt), the \$2.3 million increase in current liabilities (exclusive of the current portion of long-term debt) and the \$2.2 million increase in future income taxes.

Share capital increased \$8.0 million or 11 percent from \$71.9 million at December 31, 2002 to \$79.9 million at December 31, 2003. This was the result of the issuance of common shares for net proceeds of \$9.0 million and the exercise of stock options for net proceeds of \$0.1 million, offset by \$1.1 million of shares repurchased and cancelled under the Company's normal course issuer bid.

SELECTED ANNUAL INFORMATION

Years ended December 31			
(in thousands of CAD, except per share amounts) ⁽¹⁾	2003	2002	2001
Revenue	55,573	37,256	51,206
Income from continuing operations	3,280	737	5,753
Income from continuing operations per share – basic	0.11	0.02	0.18
Income from continuing operations per share – diluted	0.11	0.02	0.18
Net income	3,280	737	18,349
Earnings per share – basic	0.11	0.02	0.57
Earnings per share – diluted	0.11	0.02	0.56
Total assets	139,832	120,693	142,504
Long-term debt	20,773	17,712	20,597

(1) This financial data has been prepared in accordance with Canadian GAAP.

INDUSTRY ACTIVITY LEVELS

The oil and gas services industry is highly reliant on the levels of capital expenditures made by oil and gas producers and explorers. These companies base their capital expenditures on several factors, including but not limited to, hydrocarbon commodity prices, production levels of their current reserves and access to capital. Industry activity levels are ultimately dependent on the above factors. Oil and gas producers and explorers tend to examine long-term fundamentals affecting the foregoing factors before they adjust their capital budgets to reflect those factors. In recent years, commodity prices, and therefore, the level of drilling, production and exploration activity have been volatile. The segments of the oil and gas services industry in which Peak operates are heavily reliant on the level of drilling activity in western Canada. There is a direct correlation between drilling activity and utilization rates for the Company's services. Any prolonged, substantial reduction in commodity prices will likely affect the activity levels of the exploration and production companies and the demand for the Company's services. A significant, prolonged decline in commodity prices could have a material adverse effect on the Company's financial condition, results of operations and cash flows. In the past three years the number of drilling rig operating days fluctuated from 120,445 days in 2001 to 91,958 days in 2002 to 126,430 days in 2003, representing a 24 percent decrease in industry activity from 2001 to 2002 and a 37 percent increase in industry activity between 2002 and 2003. Correspondingly, the Company's reported annual revenue decreased 27 percent from 2001 to 2002 and increased 49 percent between 2002 and 2003.

BUSINESS ACQUISITIONS

Near the end of the first quarter of 2003, Peak made three strategic acquisitions (refer to the Capital Resources section for further details). Combined, the acquisitions contributed \$9.1 million of the fiscal 2003 revenue. Excluding these acquisitions, revenue for fiscal 2003 was \$46.5 million, an increase of \$9.2 million or 25 percent compared to fiscal 2002. Refer to the Results of Operations section for further discussion of the impact of these acquisitions.

EQUIPMENT IMPAIRMENT LOSSES

During the fourth quarter of 2003, the Company incurred equipment impairment losses on certain product lines totaling \$5.5 million (\$3.6 million, net of tax impact). Income for fiscal 2003 excluding these losses was \$6.9 million an increase of \$6.2 million or 835 percent as compared to fiscal 2002. In aggregate, these product lines generated \$2.8 million in revenue for fiscal 2003, \$3.6 million in revenue for fiscal 2002 and \$5.2 million in revenue for fiscal 2001.

DISCONTINUED OPERATIONS

On March 20, 2001, the Company sold the shares of its wholly-owned subsidiary, Chimo Equipment Ltd. ("Chimo"), which was comprised of drilling instrumentation equipment, for \$28.2 million. The net gain on the sale of the discontinued operations amounted to \$11.7 million (net of \$0.1 million in income taxes). The discontinued operations generated \$3.7 million of revenue and \$0.9 million (net of \$0.8 million in income taxes) of net income during fiscal 2001 which were excluded from revenue and income from continuing operations. The discontinued operations income and related gain on sale were the primary factors contributing to the disproportionate \$18.3 million of net income reported for fiscal 2001, when compared to the industry activity levels experience during the period.

ADJUSTED REVENUE

Excluding revenue derived from the business acquisitions made during 2003 and revenue generated by equipment that incurred impairment losses, the Company's revenue was \$43.7 million, \$33.7 million and \$46.0 million for fiscal 2003, 2002 and 2001, respectively. This represents an increase of 30 percent between 2002 and 2003 and a decrease of 27 between 2001 and 2002, which correlates with the fluctuations in industry activity levels already discussed.

RESULTS OF OPERATIONS

Years ended December 31 (in thousands of CAD, except otherwise noted) ⁽¹⁾	2003	2002	\$ Change	% Change
Revenue – Drilling Services	39,513	21,676	17,837	82
Revenue – Production Services	16,060	15,580	480	3
Operating expenses	22,335	18,001	(4,334)	-24
General and administrative expenses	13,721	12,066	(1,655)	-14
Depreciation and amortization expenses	6,052	3,679	(2,373)	-65
Interest expenses	1,851	1,482	(369)	-25
Income before other items	11,614	2,028	9,586	473
Impairment loss on equipment held for sale	(3,961)	-	(3,961)	N/A
Impairment loss on equipment	(1,558)	-	(1,558)	N/A
Provision for income taxes	2,541	653	(1,888)	-289
Net income	3,280	737	2,543	345

(1) This financial data has been prepared in accordance with Canadian GAAP.

REVENUE

For the year ended December 31, 2003, Peak generated revenue of \$55.6 million compared to \$37.3 million for the same period of 2002, representing an increase of 49 percent compared to an increase of 37 percent in drilling rig utilization (based on drilling rig operating days) over this time period. Total drilling rig operating days during 2003 were 126,430 days compared to 91,958 days in 2002 and an all-time high of 128,044 days in 1997. Consistent with the increased drilling rig utilization, wells completed increased 37 percent from 14,563 in 2002 to 19,957 in 2003. Meanwhile, service rig utilization increased by 13 percent during 2003 as compared to the prior year.

Drilling Services generated \$39.5 million in revenue or 71 percent of the Company's total revenue for the year ended December 31, 2003 compared to \$21.7 million or 58 percent for 2002. The \$17.8 million or 82 percent increase in revenue for 2003, was attributed to three strategic acquisitions made in March and April (refer to the Capital Resources section for further details), improved utilization and enhanced pricing. Combined, the acquisitions contributed \$9.1 million or 51 percent of the fiscal 2003 revenue increase. Before including the effect

of the acquisitions made during 2003, the Drilling Services division's revenue increased \$8.7 million or 40 percent for fiscal 2003 as compared to 2002, which is consistent with the 37 percent increase in drilling rig operating days over the same period. Utilization improvement in the solids control product line of 53 percent added \$7.1 million or 40 percent of the current year increase in revenue and reflects the dominance of the Company in this product line. Pricing within the Company's well-site product line increased an average of 9 percent and utilization improved by 26 percent contributing an additional \$2.1 million or 12 percent of the increase in revenue for 2003, which demonstrates the increased competition and excess capacity of this product line. Offsetting these increases were less significant changes in other product lines and the weak performances of the drill string and pump and pipe equipment product lines that management has identified as non-core to its existing operations, which amounted to a net decrease in revenue of \$0.5 million or 3 percent of the revenue change for 2003. Details of the drill string and pump and pipe equipment product lines are discussed in the impairment loss on equipment held for sale paragraph in this section of the MD&A.

Production Services contributed \$16.1 million in revenue or 29 percent of the Company's total revenue for the year ended December 31, 2003, compared to \$15.6 million or 42 percent for the year ended December 31, 2002. The \$0.5 million or 3 percent increase in revenue for 2003 does not compare favorably to the 13 percent increase in service rig utilization and was attributed to the weak performances of the tubulars and handling tools product lines that management has identified as non-core to its existing operations and the business climate for the anchor services product line. Details of these product lines are discussed in the impairment loss on equipment held for sale and impairment loss on equipment paragraphs in this section of the MD&A. The lower increase in the service rig utilization and Company revenue for this division as compared to the drilling rig utilization and Company revenue for the Drilling Services division is representative of the less cyclical nature of the production services side of the business.

OPERATING EXPENSES

For the year ended December 31, 2003, operating expenses were higher than the prior year period by \$4.3 million or 24 percent. Included in operating expenses are items such as salaries, wages and vehicle expenses for field staff, equipment repairs and maintenance, fuel, oil and other shop-related expenses. As a percentage of revenue, operating costs were 40 percent for 2003, compared to the prior year period of 48 percent. The decrease, as a percentage of revenue, over the prior year period reflects the Company's significant positive operating leverage to increased activity levels due to the relatively fixed nature of the associated expenses.

GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses (G&A) were \$1.7 million or 14 percent higher for the year ended December 31, 2003 as compared to the year ended December 31, 2002. G&A include expenses such as salary and benefits for office and selling staff, insurance, rent, utilities, and communications in the Company's various field offices and its corporate head office. Also included in G&A are costs associated with maintaining the Company's public listing and associated professional fees. The absorption of overhead relating to the three acquisitions added to the Drilling Services division in 2003 attributed \$1.2 million or 71 percent of the increase in G&A. Meanwhile, higher variable compensation, which correlates with the positive results achieved for 2003, contributed \$0.7 million or 41 percent of the increase. Offsetting these increases were less significant net changes in other G&A items which amounted to a net decrease of \$0.2 million or 12 percent of the change. As a percentage of revenue, G&A was 25 percent for fiscal 2003 compared to the prior year period of 32 percent.

DEPRECIATION AND AMORTIZATION EXPENSES

For the year ended December 31, 2003, depreciation and amortization expenses were higher than the prior year period by \$2.4 million or 65 percent. The increase over the prior year period was attributed to the higher activity levels experienced during the year, as depreciation associated with the Company's assets that are depreciated based on actual utilization was increased accordingly. In addition, the Company incurred \$28.2 million in capital expenditures, including the three business acquisitions added to the Drilling Services division, which has increased the asset base to be depreciated. Lastly, the Company incurred \$0.3 million in amortization expenses on intangible assets, represented by non-compete agreements associated with the business acquisitions discussed previously in this section of the MD&A.

INTEREST ON LONG-TERM DEBT EXPENSE

Interest on long-term debt expense for the year ended December 31, 2003, exceeded the prior year period by \$0.4 million or 25 percent. The interest cost (expressed as a percentage of the average long-term debt outstanding during the period) was 7.3 percent for the 12-month period ended December 31, 2003, compared to 7.7 percent for the same period of 2002. The consistency in the percentage, year-over-year, is representative of the relatively fixed nature of the Company's debt facilities outstanding and the fairly consistent bank prime rate, in recent fiscal periods, for the Company's floating debt facilities.

IMPAIRMENT LOSS ON EQUIPMENT HELD FOR SALE

During the fourth quarter of 2003, the Company incurred an impairment loss on equipment held for sale in the amount of \$4.0 million (\$2.6 million, net of tax impact). The business climate for the Company's drill string and pump and pipe equipment product lines that are part of the Drilling Services division and tubulars and handling tools product lines that are part of the Production Services division has declined dramatically. It does not appear that this condition will change without significant effort. Management has evaluated and determined that these assets are non-core to its existing operations and it would be more beneficial to exit these market segments. Based on these facts, management has committed to a plan to dispose of these product lines. These assets have been reclassified to equipment held for sale and an impairment loss has been recognized to reduce the assets carrying value to management's estimate of their fair value less selling costs. The carrying value was determined based on recent third party transactions, discussions with potential buyers, informal third party valuations and management's industry knowledge. Management intends to dispose of these assets using all options available to them, including approaching competitors, placing up for auction and approaching parties outside of the oil and gas industry. It is expected that these assets will be disposed of during the coming fiscal period, however the specific timing of the disposals is not determinable.

IMPAIRMENT LOSS ON EQUIPMENT

The Company incurred an impairment loss on equipment of \$1.6 million (\$1.0 million, net of tax impact) in the fourth quarter of 2003. In recent fiscal periods, the business climate for the Company's anchor services product line has declined dramatically. There has been a trend within certain segments of the oil and gas industry towards anchorless rigs which has significantly reduced revenue opportunities. This has adversely impacted this product line's operating results and it does not appear that this market condition will change in the future. Management has evaluated and determined that the carrying value of the assets within this product line exceed their fair value, based on recent third party transactions and its industry knowledge, and has recognized an impairment loss to reduce the assets carrying value to management's estimate of their fair value. These assets are classified as Production Services for segmented information purposes.

LOSS ON SALE OF EQUIPMENT

For the year ended December 31, 2003, the loss on sale of equipment amounted to \$0.4 million compared to a gain of \$24,000 for the year ended December 31, 2002. The loss was the result of the Company's normal business practice of divesting of

older equipment and reinvesting the proceeds in equipment that is expected to generate improved returns on invested capital.

GAIN ON MARKETABLE SECURITIES

In 2002, Peak invested in the shares of another publicly traded Canadian energy services company. Throughout 2002, these shares were valued at the lower of cost and market value resulting in a loss on marketable securities of \$0.1 million for the year ended December 31, 2002. In 2003, the Company sold the shares it held and the gain on the sale of these shares amounted to \$0.1 million.

PROVISION FOR INCOME TAXES

The current tax provision of \$0.4 million coupled with the future tax provision of \$2.1 million, resulted in a total provision for income taxes of \$2.5 million and an effective income tax rate of 43.7 percent for the year ended December 31, 2003. The variance from the expected Federal and Provincial statutory income tax rate of 36.6 percent was the result of a reduction of \$0.2 million or 3.7 percent of the provision for future enacted rates, an increase of \$0.3 million or 4.8 percent of the provision for Large Corporations tax, an increase of \$0.1 million or 2.0 percent of the provision for non-deductible expenses and an increase of \$0.2 million or 4.0 percent of the provision for other individually less significant items.

By comparison for the year ended December 31, 2002, Peak had a current tax provision of \$1.0 million offset by a \$0.3 million future tax reduction, resulting in a net provision for income taxes of \$0.7 million and an effective tax rate of 47.0 percent. The variance from the expected Federal and Provincial statutory income tax rate of 39.1 percent was the result of a reduction of \$0.2 million or 18.4 percent of the provision for future enacted rates, an increase of \$0.2 million or 14.4 percent of the provision for Large Corporations tax, an increase of \$0.1 million or 8.1 percent of the provision for non-deductible expenses, an increase of \$0.1 million or 8.3 percent of the provision for the loss on equity investment and a decrease of \$0.1 million or 4.5 percent of the provision for other individually less significant items.

NET INCOME

Net income for the year ended December 31, 2003 was \$3.3 million (\$0.11 per share diluted) compared to \$0.7 million (\$0.02 per share diluted) in 2002. Income for the year ended December 31, 2003 before equipment impairment losses was \$6.9 million (\$0.23 per share diluted) compared to the prior year of \$0.7 million (\$0.02 per share diluted).

SUMMARY OF QUARTERLY RESULTS

Three-month period ended (in thousands of CAD, except per share amounts) ⁽¹⁾	Dec 2003	Sep 2003	Jun 2003	Mar 2003	Dec 2002	Sep 2002	Jun 2002	Mar 2002
Revenue	16,515	14,398	9,728	14,932	9,486	7,945	6,655	13,170
Net income (loss)	(1,378)	1,917	94	2,647	56	(395)	(1,062)	2,138
Earnings (loss)								
Per share – basic	(0.05)	0.07	0.00	0.09	0.00	(0.01)	(0.03)	0.07
Earnings (loss)								
Per share – diluted	(0.05)	0.07	0.00	0.09	0.00	(0.01)	(0.03)	0.07

(1) This financial data has been prepared in accordance with Canadian GAAP

SEASONALITY OF OPERATIONS

All of the Company's operations are carried out in Canada. The ability to move heavy equipment in Canadian oil and gas fields is dependant on weather conditions, whereby thawing in the spring renders many secondary roads incapable of supporting heavy equipment until the ground is dry. In addition, activity in the more northern parts of the country are accessible only in winter months where the ground is frozen deep enough to support the weight of the equipment. As a result, the Company's activity generally follows along with this seasonality, as clearly demonstrated by the Company's quarterly revenue fluctuations, whereby activity is traditionally highest in the first quarter of the year and lowest in the second quarter of the year. Starting in March 2003, as a result of the access matting acquisition, the Company commenced providing access matting for roads, pipeline right-of-way and drilling locations in remote areas of British Columbia and the Ft. McMurray area of Alberta. This service is most active during the summer and fall months providing a counter-cyclical revenue stream to Peak's historical operations.

LIQUIDITY

FUNDS PROVIDED BY OPERATIONS

Cash provided by operating activities, before changes in non-cash working capital components, was \$17.3 million (\$0.57 per share diluted) in 2003 compared to \$4.8 million (\$0.15 per share diluted) in 2002. The 264 percent increase was directly attributed to the higher industry activity levels and associated income before non-cash items experienced during the year ended December 31, 2003. Cash provided from operating activities is heavily dependent on the generation of sufficient net income before non-cash items. As such, changes in the level of industry drilling activities will significantly affect cash flow provided by operating activities.

INVESTING ACTIVITIES

Net cash used in investing activities during 2003 was \$25.6 million compared to \$5.5 million during 2002. The significant increase in cash used for 2003 was mainly the result of \$26.4 million of net asset purchases (includes business acquisitions and purchase of equipment, net of proceeds on sale of equipment) compared to \$5.4 million in 2002.

FINANCING ACTIVITIES

Net cash provided from financing activities in 2003 was \$11.9 million compared to net cash used of \$3.8 million in 2002. The cash provided during 2003 was primarily due to the net issuance of share capital (includes issuance of share capital, net of costs less repurchase of share capital, net of costs) in the amount of \$8.1 million as compared to a repurchase of share capital of \$1.9 million during 2002. Also contributing to the cash provided during 2003 was the net increase in utilization of the Company's debt facilities (includes increases and repayment of current and long-term debt facilities) of \$4.1 million as compared to a net repayment of \$1.9 million in 2002.

WORKING CAPITAL

The Company had a net working capital of \$13.3 million at December 31, 2003 compared to \$11.7 million at December 31, 2002. The Company's current ratio (defined as current assets divided by current liabilities excluding the current portion of long-term debt) decreased from 4.02 to 1.00 at December 31, 2002 to 3.13 to 1.00 at December 31, 2003.

OPERATING LINE OF CREDIT

Peak has a demand operating line of credit facility at its disposal to meet short-term cash requirements. The maximum facility available to the Company is the lesser of \$5.0 million or 75 percent of Peak's accounts receivable, the facility bears interest at the bank prime rate (December 31, 2003 - 4.50 percent) or banker's acceptance rates plus a stamping fee of 0.75 percent and is secured by a general assignment of book debts and a general security agreement. At December 31, 2003, the Company had utilized \$2.1 million of this facility and it is the Company's intention to increase or decrease this facility, as required, to meet working capital requirements.

CONTRACTUAL OBLIGATIONS

The Company intends to fund its contractual obligations through cash flow generated by operating activities. The Company's contractual obligations for the next five years are as follows:

Contractual obligations (in thousands of CAD)	2004	2005	2006	2007	2008	Post 2008	Total
Long-term debt	2,357	2,549	2,603	2,659	2,719	7,886	20,773
Operating leases	3,077	2,731	2,372	1,430	690	-	10,300
Total contractual obligations	5,434	5,280	4,975	4,089	3,409	7,886	31,073

CAPITAL RESOURCES

CAPITAL EXPENDITURES

During 2003, the Company expended a total of \$26.4 million on net asset purchases (includes business acquisitions and purchase of equipment, net of proceeds on sale of equipment) compared to \$5.4 million in 2002.

Total expenditures consisted of:

- The acquisition of all the operating assets of Mighty Mats Ltd. ("Mighty Mats") effective March 6, 2003, for cash consideration of \$7.5 million. Mighty Mats, based out of Ft. Nelson, British Columbia, provides access matting for roads, pipeline right-of-ways and drilling locations in the remote areas of northeastern British Columbia and the Ft. McMurray area of Alberta. Peak retained the operating name of Mighty Mats to maintain a local presence in the areas it operates and is currently expanding the size of the product line to meet customer demand. These assets were added to the Drilling Services division of the Company.
- The acquisition of all the operating assets of Cobalt Rentals Ltd. ("Cobalt") effective March 6, 2003, for cash consideration of \$2.3 million. Cobalt mainly provides premix tanks and portable gas compressors as rental equipment to the oil and gas industry. The premix assets are very complimentary to Peak's existing solids control business (Drilling Services division), while the gas compression equipment is complimentary to the Company's Production Services division.
- On April 11, 2003, the acquisition of all of the issued and outstanding common shares of Whitefox Environmental Services Inc. ("Whitefox") for cash consideration of \$3.7 million. Whitefox provides wastewater management systems for the processing of grey and black water effluent on remote locations. The regulations within the oil and gas industry are becoming increasingly stringent with respect to the processing and disposal of wastewater in remote locations. These assets were added to the Drilling Services division of the Company.

A summary of the components of the three acquisitions are:

(in thousands of CAD)	Mighty Mats	Cobalt	Whitefox	Total
Equipment	5,910	2,022	1,532	9,464
Intangibles	1,000	325	300	1,625
Goodwill	558	-	2,142	2,700
Future income taxes	-	-	(296)	(296)
	7,468	2,347	3,678	13,493

- Throughout fiscal 2003, the Company expended \$13.0 million, net of proceeds on sale of equipment, on capital related items.

Peak intends to invest \$8.6 million in capital expenditures during fiscal 2004 through its normal business operations. This is comprised of \$5.0 million in growth capital (\$3.6 million Drilling Services; \$1.4 million Production Services), \$3.2 million in maintenance capital (\$2.8 million Drilling Services; \$0.4 million Production Services) required to sustain the Company's existing operating capacity and \$0.4 million in infrastructure capital to support operations. In addition to the planned capital expenditures for fiscal 2004, the Company intends on continuing to identify, evaluate and acquire oil and gas service companies and/or service assets that complement Peak's business model. The Company plans to use cash generated from operating activities to fund maintenance capital expenditures and to utilize its existing and planned debt and equity facilities outlined in following paragraphs to fund new capital expenditures and any new business acquisitions contemplated for fiscal 2004.

LONG-TERM DEBT

The Company has increased its long-term debt (including current portion) by \$3.1 million from \$17.7 million at December 31, 2002 to \$20.8 million at December 31, 2003. The long-term debt to equity ratio (defined as long-term debt including current portion of long-term debt divided by shareholders' equity) remained relatively consistent at 0.24 to 1.00 at December 31, 2003 compared to 0.23 to 1.00 at December 31, 2002. At December 31, 2003, the Company had \$65.9 million in long-term debt facilities of which \$45.1 million was available for use by Company for future capital expenditures and business acquisitions.

The Company's available and utilized long-term debt facilities consist of:

- An acquisition term revolving loan facility, authorized for \$25.0 million, that is intended to be utilized to fund capital expenditures and business acquisitions as required. The Company had \$1.0 million drawn on this facility at December 31, 2003. Interest is calculated at the bank prime rate plus 0.75 percent or at banker's acceptance rates plus a variable stamping fee of between 1.50 percent to 2.25 percent. This loan has the flexibility to be drawn down and repaid without incurring any penalties. The Company anticipates this facility will be extended for an additional 12-month term coinciding with the annual review in May 2004. If not renewed, the loan is repayable over a term of five years. The loan is secured by a general assignment of book debts and a general security agreement.
- A loan facility authorized for \$21.1 million with First Treasury Inc. that is intended to be utilized to fund capital expenditures and acquisitions as required. The interest rate on funds advanced on this facility would be determined based on the Government of Canada bond yield which most closely matches the maturity date plus 2.75 percent. The facility expires October 14, 2008, with the right of extension at the Company's option, for an additional five-year period.
- A \$6.8 million loan payable to First Treasury Inc. requiring quarterly principal payments of \$0.2 million. Interest is calculated at 8.03 percent until May 15, 2004, at which time the interest rate will be adjusted to the Government of Canada bond yield which most closely matches the maturity date plus 2.75 percent. The loan matures October 14, 2008, with the right of extension at the Company's option, for an additional five-year period. The loan is secured by certain equipment.
- A \$3.4 million loan payable to First Treasury Inc. requiring quarterly principal payments of \$0.1 million. Interest is calculated at 7.66 percent until May 15, 2004, at which time the interest rate will be adjusted to the Government of Canada bond yield which most closely matches the maturity date plus 2.75 percent. The loan matures October 14, 2008, with the right of extension at the Company's option, for an additional five-year period. The loan is secured by certain equipment.

- A \$4.9 million loan payable to First Treasury Inc. requiring quarterly principal payments of \$0.1 million. Interest is calculated at 6.78 percent. The loan matures October 14, 2008, with the right of extension at the Company's option, for an additional five-year period. The loan is secured by certain equipment.
- A \$4.7 million loan payable to GE Capital Corporation requiring monthly payments of \$0.1 million including interest at bank prime rate plus 1.50 percent. The loan matures March 24, 2004 and is secured by certain equipment. The Company has the option and intends to convert this loan to its acquisition term revolving loan.

All covenants were satisfied at December 31, 2003, all banking requirements were up to date and the Company does not anticipate any covenant issues restricting its future operating, investing or financing activities.

SHARE CAPITAL

Share capital increased \$8.0 million to \$79.9 million at the end of 2003 from \$71.9 million at the end of 2002. This was the result of the issuance of 3.5 million common shares, at \$2.70 per share, for net proceeds after issue costs of approximately \$9.0 million, the exercise of 0.1 million stock options for net proceeds of \$0.1 million and was partially offset by the continuation of the normal course issuer bid by which the Company repurchased and cancelled 0.4 million common shares for \$1.1 million at an average share price of \$1.96 per share. Of the 0.4 million common shares repurchased in 2003, 0.1 million apply to the normal course issuer bid that was renewed for another 12-month period effective May 16, 2003. The Company is eligible to repurchase up to 1.5 million common shares under the current normal course issuer bid, representing a maximum of five percent of the issued and outstanding common shares of Peak effective May 16, 2003.

Peak had 33.1 million common shares and 2.7 million stock options (1.7 million exercisable) outstanding at December 31, 2003 compared to 30.0 million common shares and 2.9 million stock options (1.8 million exercisable) at December 31, 2002.

Subsequent to December 31, 2003, the Company issued 0.5 million common shares pursuant to the exercise of an over-allotment option associated with an offering made December 9, 2003, at a price of \$2.70 per share, for gross proceeds of \$1.4 million.

On January 22, 2004, Peak's Board of Directors unanimously approved a resolution to convert the Company to an income trust. In addition, on March 10, 2004, the Company announced an equity financing offer. Details regarding these transactions are outlined in the Proposed Transactions section of this MD&A.

OFF-BALANCE SHEET ARRANGEMENTS AND TRANSACTIONS WITH RELATED PARTIES

OFF-BALANCE SHEET ARRANGEMENTS

The Company has a 33.9 percent equity interest in Petrowave Solutions, Inc. ("Petrowave"), a company which provides secure internet-based commercial software solutions for the oilfield services sector. Petrowave is accounted for in Peak's consolidated financial statements using the equity method. During 2002, the remaining carrying value of this investment was written off in accordance with Canadian generally accepted accounting principles. The Company continues to believe that Petrowave's commercial software solutions have economic viability in the appropriate business model and is exploring all available options to capitalize on this. Petrowave's historical operations would not support negotiating commercial office lease space on its own accord, hence the Company has provided security on this lease to facilitate the continued operations of Petrowave. If Petrowave defaults on the lease, the Company would be liable for six months rent or approximately \$18,000. This amount is not reflected in the Company's December 31, 2003 balance sheet.

TRANSACTIONS WITH RELATED PARTIES

Peak also has a revolving demand credit facility with Petrowave, to a maximum of \$0.5 million, bearing interest at the bank prime rate plus 2.00 percent. At December 31, 2003, Petrowave had utilized \$0.2 million of this facility to fund current working capital requirements and the Company believes that it will be able to realize on this loan receivable in the future.

FOURTH QUARTER

REVENUE

For the three-month period ended December 31, 2003, revenue increased 74 percent or \$7.0 million from \$9.5 million in the comparable prior year period to \$16.5 million. Drilling Services contributed approximately 75 percent of the revenue generated during the fourth quarter of 2003 with Production Services comprising the balance at 25 percent.

Drilling Services continued to be a strong performer for the Company during the final quarter of 2003, increasing revenue by 117 percent or \$6.8 million from \$5.8 million in the prior year period to \$12.5 million. Meanwhile, drilling rig operating days increased 42 percent over this time period. Consistent with the discussion of annual revenues (refer to the Results of Operations section of the MD&A for further details), strong utilization, improved pricing and new product lines within the Drilling Services division continued to be the main reasons for the Company's strong revenue performance relative to the activity levels within the industry.

Production Services also contributed to the increase in revenue performance for the fourth quarter, increasing 7 percent or \$0.3 million from \$3.7 million in the comparable prior year period to \$4.0 million. By comparison, service rig activity increased by 19 percent over this time period. As discussed in the annual revenues narrative (refer to the Results of Operations section of the MD&A for further details), the Production Services' performance was hindered, relative to the activity levels within the industry, by weak performances of the tubulars, handling tools and anchoring services product lines.

OPERATING EXPENSES

Operating expenses for the quarter ended December 31, 2003 were \$6.6 million compared to \$4.4 million in the prior year period, representing a \$2.2 million or 49 percent increase. As a percentage of revenue, operating costs were 40 percent for the quarter compared to the prior year period of 47 percent. The decrease over the prior year period reflects the Company's significant positive operating leverage to increased industry activity levels.

GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses for the fourth quarter of 2003 were \$3.5 million compared to \$2.9 million in the prior year period, translating into an increase of \$0.6 million or 21 percent. As detail in the annual G&A review (refer to the Results of Operations section of the MD&A for further details), the increase over the prior year period was primarily attributed to the absorption of overhead relating to the three acquisitions added to the Drilling Services division in 2003. As a percentage of revenue, G&A was 21 percent for the fourth quarter of 2003 compared to the prior year period of 31 percent.

DEPRECIATION AND AMORTIZATION EXPENSES

For the three months ended December 31, 2003, depreciation and amortization expenses were higher than the prior year period by \$0.8 million or 74 percent, increasing from \$1.0 million to \$1.8 million. The increase over the prior year period was attributed to the higher activity levels experienced during 2003 and the increased capital expenditures incurred throughout 2003, including the acquisitions that were added to the Drilling Services division.

INTEREST ON LONG-TERM DEBT EXPENSE

For the final three months of 2003, interest expense increased from \$0.4 million in the comparable prior year period to \$0.5 million, representing an increase of \$0.1 million or 33 percent. As a percentage of revenue, interest was 2.9 percent during the fourth quarter of 2003 compared to 3.8 percent for the same period in 2002.

IMPAIRMENT LOSS ON EQUIPMENT HELD FOR SALE

During the fourth quarter of 2003, the Company incurred an impairment loss on equipment held for sale in the amount of \$4.0 million (\$2.6 million, net of tax impact). Further details regarding the impairment loss are provided in the Results of Operations section of the MD&A.

IMPAIRMENT LOSS ON EQUIPMENT

The Company incurred an impairment loss on equipment of \$1.6 million (\$1.0 million, net of tax impact) in the fourth quarter of 2003. Refer to the Results of Operations section of the MD&A for further details.

NET INCOME (LOSS)

Net loss for the fourth quarter of 2003 was \$1.4 million (\$0.05 per share diluted) compared to the prior year period's net income of \$0.1 million (\$0.00 per share diluted). Income for the three-month period ended December 31, 2003, before equipment impairment losses was \$2.2 million (\$0.07 per share diluted) compared to the prior year period of \$0.1 million (\$0.00 per share diluted).

PROPOSED TRANSACTIONS

REORGANIZATION INTO AN INCOME TRUST

On January 22, 2004, Peak's Board of Directors unanimously approved a proposal to reorganize the Company into an income trust ("Trust") effective May 1, 2004. The proposed reorganization is designed to enhance shareholder value through the distribution of a portion of cash flow generated by the business of Peak on a tax effective basis while maintaining a platform for growth. Peak's management believes that there are significant growth opportunities in the oil and gas services business. By reorganizing into a Trust, Peak's management feels that it will have an improved access to equity capital, which will enable Peak to more aggressively pursue its growth strategy and allow investors to more directly participate in the cash flow derived there from.

The reorganization into a Trust will enable the earnings from Peak's business to be distributed directly to the Trust's unit holders (former Peak shareholders) in a tax effective manner. Under the terms of the proposed reorganization, Peak shareholders will receive, at their election, one unit (a "Unit") of the Trust or one exchangeable share for every two Peak common shares ("Shares") held. There will be a maximum of 3.4 million exchangeable shares issued pursuant to the plan of arrangement representing approximately 20 percent of the total outstanding Units. If requests for exchangeable shares exceed the maximum, the exchangeable shares will be prorated among those electing. In lieu of monthly cash distributions, the exchange value of the exchangeable shares will increase by the amount of distributions paid to unit holders. Peak's Board of Directors anticipate setting the initial monthly distribution at approximately \$0.075 per Unit once the conversion is completed. The Trust intends to retain sufficient cash flow to fund maintenance and growth capital as required. It is expected that the proposed distributions represent approximately 60 percent of distributable cash flow after maintenance capital expenditures, on a pro-forma basis.

The reorganization will be accomplished by way of a plan of arrangement under the *Business Corporations Act* (Alberta) that is subject to the approval of at least 66.7 percent of the votes cast by the shareholders and option holders of Peak at an annual and special meeting to be held on April 28, 2004. In addition to the requirement for security holder approval, the reorganization is also subject to a number of other conditions including the receipt of all necessary regulatory and court approvals as well as the finalization and execution of banking and other transaction documentation.

ASSET ACQUISITION

On February 19, 2004, the Company entered into a non-binding letter of intent to acquire the oilfield rental assets of a competitor for \$5.0 million. The closing of the acquisition is expected to occur on or about March 15, 2004 and is subject to several conditions precedent, therefore the Company cannot be certain that the acquisition will occur. At current industry activity levels, these assets are expected to provide Peak with \$2.5 million in annual revenue for its Drilling Services division. In addition, it is anticipated that the acquisition will not significantly impact gross margin levels that the Company has historically achieved.

EQUITY OFFERING

On March 10, 2004, Peak announced that it has entered into an agreement under which a syndicate of underwriters will purchase for resale 4.8 million common shares of Peak at \$4.80 per share for total gross proceeds of \$23.0 million and net proceeds of \$21.6 million. The transaction is expected to close on or about March 30, 2004 and is subject to normal regulatory approvals. Proceeds from this offering will be used to fund increased capital expenditures and general corporate purposes.

CRITICAL ACCOUNTING ESTIMATES

In preparation of the Company's consolidated financial statements, management is required to make estimates and assumptions based on information available as of the date of the consolidated financial statements that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and revenue and expenses for the periods reported. The most significant of these are the estimated revenues recognized using the percentage of completion method, impairment loss on equipment, impairment loss on equipment held for sale, goodwill and estimates of various taxation matters. Actual results could differ from these amounts.

Although estimates and assumptions based on information available at the time are required to be made, it is management's opinion that none of the above items identified or other items in Peak's financial statements involve assumptions or estimates that are highly uncertain at the time they were made and that different estimates that the Company could have used or changes in the accounting estimate that are reasonably likely to occur would have a material impact on the Company's financial condition, changes in financial condition or results of operations.

CHANGES IN ACCOUNTING POLICIES

STOCK-BASED COMPENSATION PLAN

Effective January 1, 2004, the Company will retroactively adopt new required Canadian accounting standards that will apply the fair value method to all stock-based payments and awards. Under the fair value method, the Company will calculate the fair value of stock options grants or direct awards of stock and record the fair value as compensation expense over the vesting period of those grants and awards. Currently, when stock options are issued to employees, no compensation expense is recorded in the financial statements. Any consideration received on exercise of the stock options is credited to share capital.

The impact of the retroactive adoption to the consolidated financial statements is expected to increase (decrease) the following:

Consolidated Balance Sheet (in thousands of CAD)		December 31, 2003
Retained earnings, beginning of year		
As previously reported		2,899
Restatement adjustment		(87)
As restated		2,812
Retained earnings, end of year		
As previously reported		6,179
Restatement adjustment		(319)
As restated		5,860
Consolidated Income Statement (in thousands of CAD)		For the year ended December 31, 2003
General and administrative expenses		
As previously reported		13,721
Restatement adjustment		232
As restated		13,953
Net income		
As previously reported		3,280
Restatement adjustment		(232)
As restated		3,048

FINANCIAL AND OTHER INSTRUMENTS

The Company's significant financial and other instruments consist of accounts receivable and long-term debt.

ACCOUNTS RECEIVABLE

A concentration of credit risk on the Company's trade accounts receivable exists as they are virtually all derived from the oil and gas industry. Overall significant long-term changes in the geopolitical, economic or environmental conditions, as they relate to the oil and gas industry, could adversely impact the Company's ability to realize on its accounts receivable. The amount of this impact is not determinable. Peak manages this risk through various internal processes including credit checks, special conditions applied to customers based on historical experience and management of account receivable exposure to any one customer at any one period.

LONG-TERM DEBT

Peak utilizes long-term debt to fund capital expenditures and business acquisitions, as required. Through its use of long-term debt, the Company is exposed to interest rate risk which it manages its exposure through a combination of fixed and floating rate borrowings. At December 31, 2003 the long-term debt had a carrying and fair value of \$20.8 million. The fair value was calculated using an interest rate of 6.50% which represents management's estimate of the interest rate in effect at December 31, 2003 for similar debt facilities.

INTERNAL MANAGEMENT ACTIVITIES AND OTHER

Peak has a comprehensive insurance and risk management program in place to protect its assets and operations. This program meets or exceeds industry standards. The Company also has programs in place to ensure it meets or exceeds current environmental standards. Peak's internal safety procedures include detailed safety and operating procedure manuals for each of its subsidiaries, as well as required internal and external safety environmental response and operating training for all employees. The general managers of each of Peak's subsidiaries are required, in the event of any incident, to report to Peak's Chief Operating Officer.

In January 2004, Peak's management initiated a plan to consolidate its internal legal and operating structure (the "Plan"). The primary benefits supporting the change are the opportunities it will provide the Company to leverage branding efforts, ability to capitalize on geographical infrastructure efficiencies and to better position the Company for growth opportunities. Effective April 1, 2004, the Company will have essentially completed the Plan and all operations will be branded under Peak Energy Services. The Company anticipates that the total expenditure to implement the Plan will be approximately \$0.5 million and will be a combination of capital and period expenditures.

Additional information relating to the Company, including the Company's Annual Information Form, is available on the System for Electronic Document Analysis and Retrieval ("SEDAR") at www.sedar.com.

OUTLOOK

Hydrocarbon pricing continues to stimulate strong activity within the oil and gas industry and like 2003, 2004 appears to be shaping up as another strong year of activity within the Western Canadian Sedimentary Basin. Peak is well positioned to take advantage of higher utilization and pricing in its key business segments. The Company's recent acquisitions and higher activity levels has resulted in positive operating results and Peak continues to expand its business lines to meet customer demand.

Specifically, Peak has now more than doubled the size of its access matting fleet from 8,200 mats to over 20,000 mats, currently, and management intends to expand this fleet to approximately 25,000 mats by mid 2004 to meet customer demand over the next few years. On this note, Peak has finalized a contract with a major operator in the Ft. Nelson region to provide at least 15,000 mats through the end of 2005. The counter-seasonality and multi-year contract nature of this business line has and will provide more stable revenue and cash flow streams in the coming years.

On January 22, 2004, Peak announced that its Board of Directors has unanimously approved a resolution to recognize Peak into an income trust. The Company expects this transaction will provide Peak with improved access to capital, a lower cost of capital and provide a new platform for growth. In addition, the Company expects the transaction will provide unit holders with enhanced valuation and improved liquidity.

In anticipation of the Trust, Peak's management believes that the Company will have an improved platform for growth and have set some aggressive growth objectives over the next two years including a combination of acquisitions and internal growth of existing business lines. As noted in this MD&A, the Company will be disposing of some non-core assets in the immediate future to allow Peak to focus on building its core businesses and expanding into new business lines to further its overall growth strategy.

As examples of our continued growth strategy, the Company announced on February 19, 2004, that it has entered into a letter of intent to acquire the oilfield rental assets of a competitor for \$5.0 million. The assets will provide significant growth for one of Peak's major product lines. In addition, on March 10, 2004, the Company

announced a bought deal equity financing which will generate \$21.6 million in net proceeds to be utilized for capital expenditures and general corporate purposes.

In summary, the Company expects strong activity-levels to continue for the foreseeable future and Peak has never been better positioned to take advantage of these strong industry fundamentals. Under Peak's proposed new Trust structure, the Company will be in an enviable position to capitalize on significant growth opportunities with a lower cost of capital that will translate into enhanced returns for its unit holders.

Consolidated Financial Statements of

PEAK ENERGY SERVICES LTD.

Years ended December 31, 2003 and 2002

REPORT FROM MANAGEMENT

All information presented in this annual report is the responsibility of the Company's management. The accompanying consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles.

The Company's management has implemented and maintained internal controls to provide reasonable assurance that assets are properly safeguarded and that transactions and financial records are properly recorded and maintained to provide reliable financial information.

The Audit Committee of the Board of Directors has reviewed the consolidated financial statements with management and KPMG LLP, the Company's external auditors. The consolidated financial statements have been approved by the Board of Directors on the recommendation of the Audit Committee.



Christopher E. Haslam, CMA, CBV
President and Chief Executive Officer
February 26, 2004



Matthew J. Huber, CA, CMA
Chief Financial Officer

AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheets of Peak Energy Services Ltd. as at December 31, 2003 and 2002 and the consolidated statements of income and retained earnings and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2003 and 2002 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.



Chartered Accountants

Calgary, Canada
February 26, 2004

PEAK ENERGY SERVICES LTD.

Consolidated Balance Sheets

December 31, 2003 and 2002 (in thousands of dollars)

	2003	2002
Assets		
Current assets:		
Cash	\$ -	\$ 3,275
Marketable securities (note 4)	-	670
Accounts receivable	16,061	8,340
Income taxes recoverable	36	83
Prepaid expenses	593	1,048
Inventory	2,812	2,226
	19,502	15,642
Property and equipment (note 5)	113,847	104,816
Equipment held for sale (note 6)	1,773	-
Loan receivable (note 7)	198	235
Deferred financing costs (note 8)	535	-
Intangibles (note 9)	1,277	-
Goodwill	2,700	-
	\$ 139,832	\$ 120,693

Liabilities and Shareholders' Equity

Current liabilities:		
Operating line of credit (note 10)	\$ 2,078	\$ -
Demand loan (note 11)	-	1,000
Accounts payable and accrued liabilities	4,155	2,894
Current portion of long-term debt (note 12)	2,357	2,945
	8,590	6,839
Long-term debt (note 12)	18,416	14,767
Future income taxes (note 13)	25,222	23,048
Shareholders' equity:		
Share capital (note 14)	79,942	71,850
Contributed surplus (note 15)	1,483	1,290
Retained earnings	6,179	2,899
	87,604	76,039
Commitments (note 17)		
Subsequent events (note 19)		
	\$ 139,832	\$ 120,693

See accompanying notes to consolidated financial statements.

Approved by the Board:



Christopher E. Haslam, Director



Richard A. Grafton, Director

PEAK ENERGY SERVICES LTD.

Consolidated Statements of Income and Retained Earnings

Years ended December 31, 2003 and 2002 (in thousands of dollars, except per share amounts)

	2003	2002
Revenue	\$ 55,573	\$ 37,256
Expenses:		
Operating	22,335	18,001
General and administrative	13,721	12,066
Depreciation and amortization	6,052	3,679
Interest on long-term debt	1,851	1,482
	43,959	35,228
Income before other items	11,614	2,028
Other items:		
Impairment loss on equipment held for sale (note 6)	(3,961)	-
Impairment loss on equipment (note 5)	(1,558)	-
(Loss) gain on sale of equipment	(384)	24
Gain (loss) on marketable securities (note 4)	110	(118)
Loss on equity investment (note 7)	-	(544)
	(5,793)	(638)
Income before income taxes	5,821	1,390
Provision for income taxes (note 13):		
Current	447	948
Future (reduction)	2,094	(295)
	2,541	653
Net income	3,280	737
Retained earnings, beginning of year		
As previously reported	2,899	20,628
Change in method of accounting for goodwill (note 3)	-	(18,466)
As restated	2,899	2,162
Retained earnings, end of year	\$ 6,179	\$ 2,899
Earnings per share:		
Basic	\$ 0.11	\$ 0.02
Diluted	\$ 0.11	\$ 0.02

See accompanying notes to consolidated financial statements.

PEAK ENERGY SERVICES LTD.

Consolidated Statements of Cash Flows

Years ended December 31, 2003 and 2002 (in thousands of dollars)

	2003	2002
Operating activities:		
Net income	\$ 3,280	\$ 737
Add (deduct) items not affecting cash:		
Depreciation and amortization	6,052	3,679
Impairment loss on equipment held for sale	3,961	-
Impairment loss on equipment	1,558	-
Amortization of deferred financing costs	121	-
(Gain) loss on marketable securities	(110)	118
Loss on equity investment	-	544
Future income taxes (reduction)	2,094	(295)
Loss (gain) on sale of equipment	384	(24)
	17,340	4,759
Change in non-cash working capital balances:		
Accounts receivable	(7,721)	1,094
Prepaid expenses	148	168
Inventory	(586)	(40)
Accounts payable and accrued liabilities	1,261	(22)
Income tax recoverable / payable	47	(839)
	10,489	5,120
Investing activities:		
Acquisition of marketable securities	-	(1,048)
Proceeds from sale of marketable securities	780	260
Increase in loan receivable	(125)	(135)
Repayment of loan receivable	162	-
Business acquisitions	(13,493)	-
Purchase of equipment	(14,723)	(6,591)
Proceeds on sale of equipment	1,770	1,172
Net change in non-cash working capital from the purchase of equipment	-	798
	(25,629)	(5,544)
Financing activities:		
Increase in deferred financing costs	(349)	-
Increase in operating line of credit	2,078	-
Increase in demand loan	-	1,000
Repayment of demand loan	(1,000)	-
Increase in long-term debt	15,028	-
Repayment of long-term debt	(11,967)	(2,885)
Issue of share capital, net of costs	8,961	-
Repurchase of share capital, net of costs	(886)	(1,922)
	11,865	(3,807)
Decrease in cash	(3,275)	(4,231)
Cash, beginning of year	3,275	7,506
Cash, end of year	\$ -	\$ 3,275
Supplemental information:		
Interest paid	\$ 1,851	\$ 1,482
Income taxes paid (refunded)	\$ 400	\$ (10)

See accompanying notes to consolidated financial statements.

PEAK ENERGY SERVICES LTD.

Notes to Consolidated Financial Statements

Years ended December 31, 2003 and 2002

(amounts in thousands of dollars, except per share amounts)

Peak Energy Services Ltd. (the "Company") is a diversified Canadian energy services company operating in western Canada. Through its various operating segments, the Company provides drilling and production services to oil and gas drilling contractors and oil and gas producers.

I. Significant accounting policies

(a) Basis of presentation

The consolidated financial statements include the accounts of the Company and its subsidiaries and partnerships, all of which are wholly owned.

(b) Inventory

Inventory of raw materials, replacement parts and other supplies are stated at the lower of cost determined on a specific or average cost basis, and replacement value.

(c) Property and equipment

Property and equipment are stated at cost less accumulated depreciation. Depreciation is provided over the estimated useful lives of the assets using the following methods and rates:

	Methods	Rates
Vehicles and equipment	Declining balance	20%
Machinery and equipment	Declining balance	10 to 20%
Machinery and equipment	Straight-line	3 to 6 years
Buildings	Straight-line	5 to 25 years
Office and computer equipment	Declining balance	10 to 30%

Depreciation on certain rental equipment is provided on a utilization method based upon estimated useful lives of up to 5,475 rental days.

(d) Investment

The investment in an associated company over which the Company has significant influence is accounted for using the equity method. Under the equity method, the original cost of the shares is adjusted for the Company's share of post-acquisition losses less dividends.

(e) Deferred financing costs

Costs associated with long-term debt are deferred and amortized using the straight-line method over the term of the debt. Amortization is included in general and administrative expenses.

PEAK ENERGY SERVICES LTD.

Notes to Consolidated Financial Statements

Years ended December 31, 2003 and 2002

(amounts in thousands of dollars, except per share amounts)

(f) Intangibles

Intangibles, consisting of non-compete agreements, are recorded at cost and are amortized using the straight-line method over their useful lives of 3 to 4 years. Amortization is included in depreciation and amortization expenses.

(g) Goodwill

Goodwill is the residual amount that results when the purchase price of an acquired business exceeds the sum of the amounts allocated to the assets acquired, less liabilities assumed, based on their fair values.

Goodwill is not amortized and is tested for impairment annually in the fourth quarter, or more frequently if events or changes in circumstances indicate that the asset might be impaired. The impairment test is carried out in two steps. In the first step, the carrying amount of the reporting segment is compared to its fair value. When the fair value of a reporting segment exceeds its carrying amount, goodwill of the reporting segment is considered not to be impaired and the second step of the impairment test is unnecessary. The second step is carried out when the carrying amount of the reporting segment's goodwill exceeds its fair value, in which case the implied fair value of the reporting segment's goodwill is compared with its carrying amount to measure the amount of the impairment loss, if any. The implied fair value of goodwill is determined in the same manner as the value of the goodwill is determined in a business combination described in the previous paragraph, using the fair value of the reporting segment as if it was the purchase price. When the carrying amount of reporting segment's goodwill exceeds the implied fair value of the goodwill, an impairment loss is recognized in an amount equal to the excess.

(h) Stock-based compensation plan

The Company has a stock option plan which is described in note 14(c). When stock options are issued to employees, no compensation expense is recorded in the financial statements. Any consideration received on exercise of the stock options is credited to share capital.

Effective January 1, 2004, the Company will retroactively adopt new required Canadian accounting standards that will apply the fair value method to all stock-based payments and awards.

Under the fair value method, the Company will calculate the fair value of stock options grants or direct awards of stock and record the fair value as compensation expense over the vesting period of those grants and awards.

PEAK ENERGY SERVICES LTD.

Notes to Consolidated Financial Statements

Years ended December 31, 2003 and 2002

(amounts in thousands of dollars, except per share amounts)

(i) Revenue recognition

The Company's services are provided based upon orders and contracts with its customers that includes fixed or determinable prices on the basis of either: (1) as services are rendered method upon agreed daily, hourly or job rates or (2) a percentage of completion method calculated as the percentage that equipment under contract was utilized proportionate to the overall utilization anticipated under the contract.

(j) Income taxes

The Company follows the liability method of accounting for future income taxes. Under the liability method, future income tax assets and liabilities are determined based on "temporary differences" (differences between the accounting basis and the tax basis of the assets and liabilities), and are measured using the currently enacted, or substantively enacted, tax rates and laws expected to apply when these differences reverse. Income tax expense is the sum of the Company's provision for current income taxes and the difference between opening and ending balances of the future income tax assets and liabilities.

(k) Use of estimates

The preparation of consolidated financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions based on information available as of the date of the consolidated financial statements that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and revenues and expenses for the years reported. The most significant of these are the estimated revenues recognized using the percentage of completion method, impairment loss on equipment, impairment loss on equipment held for sale, goodwill and estimates of various taxation matters. Actual results could differ from these estimates.

(l) Per share amounts

Basic per share amounts are calculated using the weighted average number of shares outstanding during the year. Diluted per share amounts are calculated based on the treasury stock method, which assumes that any proceeds obtained on exercise of options would be used to purchase common shares at the average market price during the period. The weighted average number of shares outstanding is then adjusted by the net change.

(m) Comparative figures

Certain comparative figures have been reclassified to conform with the current financial statement presentation.

PEAK ENERGY SERVICES LTD.

Notes to Consolidated Financial Statements

Years ended December 31, 2003 and 2002

(amounts in thousands of dollars, except per share amounts)

2. Business acquisitions

(a) Mighty Mats Ltd.

On March 6, 2003, the Company purchased the operating assets of Mighty Mats Ltd. ("Mighty Mats") for cash consideration of \$7,468. Based in Ft. Nelson, British Columbia, Mighty Mats provides access matting for roads, pipeline right-of-way and drilling locations in the remote areas of northeastern British Columbia and the Ft. McMurray area of Alberta. Mighty Mats has a strong customer base of major oil and gas operators active in these areas.

(b) Cobalt Rentals Ltd.

On March 6, 2003, the Company purchased the operating assets of Cobalt Rentals Ltd. ("Cobalt") for cash consideration of \$2,347. Cobalt provides certain solids control assets and portable gas compression rental equipment to the oil and gas industry.

(c) Whitefox Environmental Services Inc.

On April 11, 2003, the Company acquired all of the issued and outstanding common shares of Whitefox Environmental Services Inc. ("Whitefox") for cash consideration of \$3,678. In addition, the Company acquired the working capital on hand at the closing date for an account payable of \$211. Whitefox provides wastewater management systems for the processing of grey and black water effluent on remote locations.

The above acquisitions have been accounted for by the purchase method with the results of operations of the acquired businesses being included in the financial statements from the date of acquisition. The allocations of the purchase prices are as follows:

	Mighty Mats	Cobalt	Whitefox	Total
Equipment	\$ 5,910	\$ 2,022	\$ 1,532	\$ 9,464
Intangibles	1,000	325	300	1,625
Goodwill	558 ⁽¹⁾	-	2,142	2,700
Future income taxes	-	-	(296)	(296)
	7,468	2,347	3,678	13,493
Working Capital	-	-	211 ⁽²⁾	211
	\$ 7,468	\$ 2,347	\$ 3,889	\$ 13,704

(1) includes a post closing adjustment of \$32

(2) Includes cash of \$72

PEAK ENERGY SERVICES LTD.

Notes to Consolidated Financial Statements

Years ended December 31, 2003 and 2002

(amounts in thousands of dollars, except per share amounts)

3. Change in accounting policy

Effective January 1, 2002, the Company prospectively adopted the new Canadian accounting standards for business combinations, goodwill and other intangible assets. Under the new standards for accounting for goodwill, goodwill is no longer amortized but is tested for impairment annually.

For the purposes of testing goodwill, the Company determined as of the date of adoption that it has two reporting units and segments: Drilling Services and Production Services. Within the Drilling Services reporting unit, there are two components referred to as well-site accommodations and solids control which are aggregated and deemed to be a single reporting unit having similar economic characteristics.

The Company allocated all applicable assets (including goodwill) and liabilities to these two reporting units to arrive at the respective carrying amounts and then conducted the required two step impairment test to identify potential goodwill impairment and measure the amount of goodwill impairment. The fair value of each reporting unit was determined by estimating the present value of future cash flows. Upon performing this impairment analysis, the Company determined that goodwill in both the Drilling Services and Production Services reporting units was impaired. Accordingly, a transitional goodwill impairment loss of \$14,957 was recognized in the Drilling Services reporting unit and \$3,509 was recognized in the Production Services reporting unit. The combined write down of \$18,466 was charged to retained earnings at January 1, 2002.

4. Marketable securities

The Company held shares in a publicly traded Canadian energy services company and these shares were valued at the lower of cost or market. During 2003, the Company sold the shares it held and the gain on the sale of these shares amounted to \$110 before income taxes. At December 31, 2002 the market value of these shares was \$769.

5. Property and equipment

2003	Cost	Accumulated depreciation	Net book value
Rental equipment	\$ 103,959	\$ 11,964	\$ 91,995
Vehicles and equipment	19,767	7,669	12,098
Machinery and equipment	2,697	860	1,837
Land and buildings	1,388	104	1,284
Office and computer equipment	8,366	1,733	6,633
	\$ 136,177	\$ 22,330	\$ 113,847

PEAK ENERGY SERVICES LTD.

Notes to Consolidated Financial Statements

Years ended December 31, 2003 and 2002

(amounts in thousands of dollars, except per share amounts)

2002	Cost	Accumulated depreciation	Net book value
Rental equipment	\$ 93,999	\$ 12,013	\$ 81,986
Vehicles and equipment	20,943	6,771	14,172
Machinery and equipment	1,558	527	1,031
Land and buildings	1,253	55	1,198
Office and computer equipment	7,626	1,197	6,429
	\$ 125,379	\$ 20,563	\$ 104,816

In recent fiscal periods, the business climate for the Company's anchor services product line has declined dramatically. There has been a trend within certain segments of the oil and gas industry towards anchorless rigs which has significantly reduced revenue opportunities. This has adversely impacted this product line's operating results and it does not appear that this market condition will change in the future. Management has evaluated and determined that the carrying value of the assets within this product line exceeds their fair value, based on recent third party transactions and its industry knowledge, and has recognized an impairment loss to reduce the assets carrying value to management's estimate of their fair value. These assets are classified as Production Services for segmented information purposes.

6. Equipment held for sale

The business climate for the Company's drill string, pump and pipe equipment, tubulars and handling tools product lines has declined dramatically. It does not appear that this condition will change without significant effort. Management has evaluated and determined that these assets are non-core to its existing operations and it would be more beneficial to exit these market segments. Based on these facts, management has committed to a plan to dispose of these product lines. These assets have been reclassified to equipment held for sale and an impairment loss has been recognized to reduce the assets carrying value to management's estimate of their fair value less selling costs. The carrying value was determined based on recent third party transactions, discussions with potential buyers, informal third party valuations and management's industry knowledge. Management intends to dispose of these assets using all options available to them, including approaching competitors, placing up for auction and approaching parties outside of the oil and gas industry. It is expected that these assets will be disposed of during the coming fiscal period, however the specific timing of the disposals is not determinable.

PEAK ENERGY SERVICES LTD.

Notes to Consolidated Financial Statements
Years ended December 31, 2003 and 2002
(amounts in thousands of dollars, except per share amounts)

	Cost	Accumulated depreciation	Net book value
Drilling Services			
Drill string	\$ 1,274	\$ 486	\$ 788
Pump and pipe equipment	1,024	524	500
	2,298	1,010	1,288
Production Services			
Tubulars	1,157	791	366
Handling tools	1,036	917	119
	2,193	1,708	485
	\$ 4,491	\$ 2,718	\$ 1,773

7. Loan receivable and investment in a related party

In November 2000, the Company invested \$650 in Petrowave Solutions, Inc. ("Petrowave"), a company which provides secure internet-based commercial software solutions for the oilfield services sector. This investment represents a 33.9% ownership interest in Petrowave and as such is accounted for using the equity method. During 2002, the investment's carrying value of \$544 was written off.

The Company has a revolving demand credit facility with Petrowave, to a maximum of \$500, interest-bearing at bank prime rate plus 2.00%. At December 31, 2003, \$198 (2002 - \$235) of this facility was utilized and it is management's intention not to demand the repayment of this facility for more than one year.

The Company has provided security on Petrowave's commercial space lease to a maximum of six months rent or approximately \$18.

8. Deferred financing costs

Cumulative deferred financing costs amount to \$818 (2002 - \$490) and have accumulated amortization of \$283 (2002 - \$183) for a net book value of \$535 (2002 - \$307). For 2002, these costs were classified as prepaid expenses.

PEAK ENERGY SERVICES LTD.

Notes to Consolidated Financial Statements

Years ended December 31, 2003 and 2002

(amounts in thousands of dollars, except per share amounts)

9. Intangibles

2003	Cost	Accumulated amortization	Net book value
Non-compete agreements	\$ 1,625	\$ 348	\$ 1,277

10. Operating line of credit

The Company has a demand operating line of credit to a maximum of the lesser of \$5,000 or 75% of the Company's accounts receivable. The line of credit bears interest at the bank prime rate (December 31, 2003 - 4.50%) or at banker's acceptance rates plus a stamping fee of 0.75%. The line of credit is secured by a general assignment of book debts and a general security agreement.

11. Demand loan

The Company had a demand revolving bank loan facility of \$25,000. The loan beared interest at bank prime rate plus 0.75% or at banker's acceptance rates plus a stamping fee of 1.50%. The loan was secured by a general assignment of book debts and a general security agreement.

PEAK ENERGY SERVICES LTD.

Notes to Consolidated Financial Statements

Years ended December 31, 2003 and 2002

(amounts in thousands of dollars, except per share amounts)

12. Long-term debt

	2003	2002
Term revolving loan payable requiring no principal payments during the term, bearing interest at bank prime rate plus 0.75% or at banker's acceptance rates plus a variable stamping fee of 1.50% to 2.25%. The loan matures May 31, 2004 and can be renewed, at the lender's option, for an additional 12-month period. If not renewed, the loan is repayable over a term of five years. The loan is secured by a general assignment of book debts and a general security agreement.	\$ 1,000	\$ -
Loan payable requiring quarterly principal payments of \$175 plus interest at 8.03% until May 15, 2004 at which time the interest rate will be adjusted to the Government of Canada bond yield which most closely matches the maturity date plus 2.75%. The loan matures October 14, 2008 with the right of extension, at the Company's option, for an additional five-year period. The loan is secured by certain equipment.	6,825	7,750
Loan payable requiring monthly payments of \$147 including interest at bank prime rate plus 1.50%. The loan matures March 24, 2004 and is secured by certain equipment. The Company has the option to convert this loan to its term revolving loan and has classified this loan consistent with the terms of the term revolving loan.	4,660	6,087
Loan payable requiring quarterly principal payments of \$125 plus interest at 6.78%. The loan matures October 14, 2008 with the right of extension, at the Company's option, for an additional five-year period. The loan is secured by certain equipment.	4,875	-
Loan payable requiring quarterly principal payments of \$88 plus interest at 7.66% until May 15, 2004 at which time the interest rate will be adjusted to the Government of Canada bond yield which most closely matches the maturity date plus 2.75%. The loan matures October 14, 2008 with the right of extension, at the Company's option, for an additional five-year period. The loan is secured by certain equipment.	3,413	3,875
	20,773	17,712
Less current portion	2,357	2,945
	\$ 18,416	\$ 14,767

Principal payments due in the next five years are as follows:

2004	\$ 2,357
2005	2,549
2006	2,603
2007	2,659
2008	2,719
Thereafter	7,886
	\$ 20,773

PEAK ENERGY SERVICES LTD.

Notes to Consolidated Financial Statements

Years ended December 31, 2003 and 2002

(amounts in thousands of dollars, except per share amounts)

13. Income taxes

Income tax expense differs from the amount that would be computed by applying the Federal and Provincial statutory income tax rates of 36.6% (2002 - 39.1%) to income before income taxes. The reconciliation of the differences are as follows:

	2003	2002
Income before income taxes	\$ 5,821	\$ 1,390
Income tax rate	36.6%	39.1%
Expected income tax provision	2,130	543
Change resulting from:		
Future enacted tax rates	(215)	(256)
Large corporations tax	278	200
Non-deductible items for tax purposes	115	112
Loss on equity investment	-	116
Other	233	(62)
	411	110
	\$ 2,541	\$ 653

The net future income tax liability is comprised of the following temporary differences:

	2003	2002
Future income tax assets:		
Non-capital losses	\$ 2,679	\$ 955
Partnership losses	-	954
Share issue costs	194	-
Other	105	131
	2,978	2,040
Future income tax liabilities:		
Property and equipment	(25,143)	(25,088)
Partnership income	(3,057)	-
	(28,200)	(25,088)
	\$ (25,222)	\$ (23,048)

At December 31, 2003, the Company has accumulated losses for income tax purposes of \$7,739 available as a deduction against future taxable income. These losses expire primarily during the years 2004 to 2010.

PEAK ENERGY SERVICES LTD.

Notes to Consolidated Financial Statements
Years ended December 31, 2003 and 2002
(amounts in thousands of dollars, except per share amounts)

14. Share capital

(a) Authorized

The authorized share capital of the Company consists of an unlimited number of common shares with no par value.

(b) Issued

	Number of common shares (000's)		Amount
Balance, December 31, 2001	31,085	\$	74,546
Exercise of stock options	17		21
Repurchased and cancelled	(1,124)		(2,696)
Less share issue costs (net of future income taxes of \$38)	-		(21)
Balance, December 31, 2002	29,978		71,850
Shares issued, per offering	3,500		9,450
Exercise of stock options	68		119
Repurchased and cancelled	(446)		(1,070)
Less share issue costs (net of future income taxes of \$215)	-		(407)
Balance, December 31, 2003	33,100	\$	79,942

(c) Share options

The Company has reserved 2,883,602 (2002 - 2,951,935) common shares pursuant to a Stock Option Plan ("the Plan"). Options to purchase common shares of the Company under the Plan may be granted by the Board of Directors to certain full-time employees and officers of the Company. At December 31, 2003 there were Plan stock options outstanding to purchase 2,716,500 (2002 - 2,901,833) common shares at prices ranging from \$1.20 to \$3.00 per share, with expiry dates ranging from April 2004 to October 2008. Options are granted throughout the year and vest at 33.33% per year over three years commencing on the date of granting.

PEAK ENERGY SERVICES LTD.

Notes to Consolidated Financial Statements

Years ended December 31, 2003 and 2002

(amounts in thousands of dollars, except per share amounts)

A summary of the status of the Company's stock option plan as of December 31, 2003 and 2002 and changes during the years then ended is presented below:

	2003		2002	
	Options (000's)	Weighted average exercise price	Options (000's)	Weighted average exercise price
Outstanding, beginning of year	2,902	\$ 2.20	2,557	\$ 2.42
Granted	520	2.53	611	2.08
Exercised	(68)	1.74	(17)	1.20
Cancelled	(637)	2.64	(249)	4.24
Outstanding, end of year	2,717	\$ 2.17	2,902	\$ 2.20
Exercisable, end of year	1,659	\$ 2.00	1,754	\$ 2.08

The range of exercise prices for options outstanding at December 31, 2003 are as follows:

Range of exercise prices	Options outstanding			Options exercisable	
	Number (000's)	Weighted average remaining contractual life (years)	Weighted average exercise price	Number (000's)	Weighted average exercise price
\$1.20	530	0.3	\$ 1.20	530	\$ 1.20
\$1.30 to 2.05	286	1.3	1.69	239	1.67
\$2.08 to 2.75	1,380	3.4	2.36	533	2.35
\$2.80 to 3.00	521	2.3	2.90	357	2.90
\$1.20 to 3.00	2,717	2.4	\$ 2.17	1,659	\$ 2.00

In accordance with the Company's stock option plan, stock options have an exercise price equal to the market price at date of grant. The per share weighted average fair value of stock options granted during the year was \$2.53 (2002 - \$2.08).

Had compensation expense been determined based on the fair value at the grant dates for options awarded under the stock option plan since January 1, 2002, the Company's net income (loss) for the years ended December 31, 2003 and 2002 would have decreased to the pro-forma amounts indicated below. These pro-forma earnings reflect compensation cost amortized over the options' vesting period and were calculated using a Black-Scholes option pricing model with the following average assumptions: risk-free interest average of 2.90% (2002 - 4.06%), expected life of five years (2002 - four years) and expected volatility of 43% (2002 - 51%) for the year ended December 31, 2003.

PEAK ENERGY SERVICES LTD.

Notes to Consolidated Financial Statements

Years ended December 31, 2003 and 2002

(amounts in thousands of dollars, except per share amounts)

	2003	2002
Net income:		
As reported	\$ 3,280	\$ 737
Proforma	\$ 3,048	\$ 650
Basic and diluted earnings per share:		
As reported	\$ 0.11	\$ 0.02
Proforma	\$ 0.10	\$ 0.02

(d) Per share amounts

Per share amounts have been calculated on the weighted average number of common shares outstanding. The weighted average shares outstanding for the year ended December 31, 2003 was 29,893,512 (2002 - 30,765,581).

Diluted per share amounts reflect the dilutive effect of the options outstanding. The diluted shares outstanding for the year ended December 31, 2003 was 30,310,421 (2002 - 31,048,385).

15. Contributed surplus

Contributed surplus arises upon the repurchase and cancellation of common shares at a price below the stated capital price per share.

	Amount
Balance, December 31, 2001	\$ 516
Shares repurchased and cancelled	774
Balance, December 31, 2002	1,290
Shares repurchased and cancelled	193
Balance, December 31, 2003	\$ 1,483

16. Financial instruments

(a) Risk management activities

Concentration of credit risk on the Company's trade accounts receivable exists in the oil and gas industry. The Company has one customer which represents in excess of 10% of revenue for 2003. Revenue attributable to this customer was \$9,722 of which \$9,229 relates to the Company's Drilling Services operating segment and \$493 relates to the Company's Production Services operating segment. Except as disclosed in this paragraph, the Company does not have a significant exposure to any individual customer or other parties.

PEAK ENERGY SERVICES LTD.

Notes to Consolidated Financial Statements

Years ended December 31, 2003 and 2002

(amounts in thousands of dollars, except per share amounts)

(b) Fair values

The carrying values of cash, accounts receivable, income taxes recoverable and payables and accounts payable and accrued liabilities approximate their fair value due to the relatively short period to maturity of the instruments. The long-term debt has a fair value of approximately \$20,805 as at December 31, 2003 (2002 - \$22,331). The fair value was calculated using an interest rate of 6.50% which represents management's estimate of the interest rate in effect at December 31, 2003 for similar debt.

(c) Interest rate risk

The Company manages its exposure to interest rate risk through a combination of fixed and floating rate borrowings.

17. Commitments

The Company is committed to payments under operating leases for equipment and buildings as follows:

2004	\$	3,077
2005		2,731
2006		2,372
2007		1,430
2008		690

18. Segmented information

The Company has determined that it operates in two industry segments which are substantially in one geographic segment. The Drilling Services operating segment is comprised of four components; well-site accommodations, solids control, access matting and waste treatment. The well-site accommodations component is engaged in the manufacturing and rental of high-quality well-site accommodation units used as living quarters for staff on remote locations in the oil and gas industry. The solids control component is engaged in the rental of sumplex drilling systems comprised of a series of tanks and centrifuges. The access matting component provides access matting for roads, pipeline rights-of-way and drilling locations. The waste treatment component is engaged in providing wastewater management systems for the processing of grey and black water effluent on remote locations. The well-site accommodation, solids control, access matting and waste treatment components are aggregated into the single operating segment referred to as Drilling Services because they have similar economic characteristics and are similar in nature regarding customers, the products and services offered, the processes and distribution methods utilized and the regulatory environment they operate in. The Production Services operating segment is engaged in providing tension anchor services for well servicing, the rental of frac/production tanks, pressure vessels, tubulars, pumps and tank truck services for completion fluids.

PEAK ENERGY SERVICES LTD.

Notes to Consolidated Financial Statements

Years ended December 31, 2003 and 2002

(amounts in thousands of dollars, except per share amounts)

	Drilling Services	Production Services	Corporate	Total
2003				
Revenue	\$ 39,513	\$ 16,060	\$ -	\$ 55,573
Depreciation and amortization	4,037	1,860	155	6,052
Interest on long-term debt	-	-	1,851	1,851
Income before other items	15,551	1,190	(5,127)	11,614
Net income	12,233	(1,395)	(7,558)	3,280
Goodwill	2,700	-	-	2,700
Total assets	107,850	29,801	2,181	139,832
Capital expenditures ⁽¹⁾	11,860	2,349	514	14,723
2002				
Revenue	\$ 21,676	\$ 15,580	\$ -	\$ 37,256
Depreciation and amortization	2,082	1,483	114	3,679
Interest on long-term debt	-	-	1,482	1,482
Income before other items	4,772	1,613	(4,357)	2,028
Net income	4,786	1,623	(5,672)	737
Goodwill	-	-	-	-
Total assets	85,606	30,011	5,076	120,693
Capital expenditures	3,867	2,230	494	6,591

(1) excludes business acquisitions disclosed in note 2

19. Subsequent events

On January 22, 2004, the Company's Board of Directors unanimously approved a proposal to reorganize the Company into an income trust. The reorganization is planned to be completed by way of a plan of arrangement under the Business Corporations Act (Alberta) that is subject to the approval of at least 66.67% of the votes cast by the shareholders and option holders of the Company at an annual and special meeting to be held on April 28, 2004. In addition to the requirement for security holder approval, the reorganization is also subject to a number of other conditions including the receipt of all necessary regulatory and court approvals as well as the finalization and execution of banking and other transaction documentation.

On January 7, 2004, the Company issued 525,000 common shares pursuant to the exercise of an over-allotment option associated with an offering made December 9, 2003, at a price of \$2.70 per share, for gross proceeds of \$1,418.

Corporate Information

BOARD OF DIRECTORS

William M. Gallacher

Managing Director and Chief Operating Officer, Avenir Capital Corporation
Director, Maxim Power Corporation

Richard A. Grafton

Executive Director
Canaccord Capital Corporation

Christopher E. Haslam

President, Chief Executive Officer
and Chairman of the Board

Frederick A. Moore

President, Nusco Supply &
Manufacturing Inc.

Lloyd Swift

President, Square Butte Resources Inc.

MANAGEMENT

Christopher E. Haslam

President and Chief Executive Officer

Matthew J. Huber

Chief Financial Officer

Curtis W. Whitteron

Chief Operating Officer

R.S. (Bob) Outhwaite

Senior Vice President

Monty R. Balderston

Vice President, Finance & Administration

John E. Hudson

Vice President, Health, Safety &
Environment and Risk Management

Dale Kaufmann

Vice President, Operations

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STOCK EXCHANGE LISTING

Toronto Stock Exchange

Symbol "PES"

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Calgary, Alberta

REGISTRAR AND TRANSFER AGENT

Valiant Trust Company

Calgary, Alberta

LEGAL COUNSEL

Burnet, Duckworth & Palmer LLP

Calgary, Alberta

Fraser Milner Casgrain LLP

Calgary, Alberta

BANKERS

National Bank of Canada

Calgary, Alberta



Peak Energy Services Ltd.

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